1986 ANNUAL REPORT

Saskatchewan Auto Fund

Board of Directors

Mr. Allan W. Wagar
Chairman
Regina

Hon. Joan H. Duncan
Minister in Charge
Vice-Chairman

Mr. Arden E. B. Erman
Maple Creek

Mr. Eli Fluter
Regina

Mr. James N. Goring
Biggar

Mr. Ted Henson
Saskatoon

Mr. Ron W. Jeffery
Weyburn

Mr. Donald R. Leier
Saskatoon

Mr. D. A. K. MacLean, Q.C.
Regina

Mr. Ray Malinowski
Yorkton

Mr. A. E. Nicholson
Regina

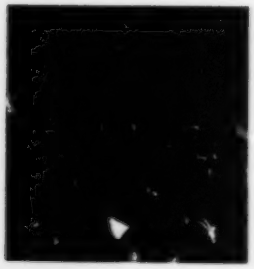
Mr. George F. Shaw
Esterhazy

Mr. Ron L. Skinner, Sr.
Yorkton

Mr. Ed Sulewski
Paddockwood

Executive

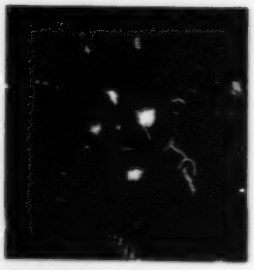
Alex Wilde
President



Alan Cockman
Vice-President
Systems

Larry Fogg
Vice-President
Claims

Grant Gibson
Vice-President
Motor Vehicle Division



Jill Kliaden
Vice-President
Finance

Bob Warren
Vice-President
Underwriting Operations

Contents

Letter of Transmittal 2

President's Message 3

Introduction 4

The Year in Review 5

Responsibility for Financial Statements 9

Auditor's Report 10

Statement of Financial Position 11

Statement of Operations and Rate Stabilization Reserve 12

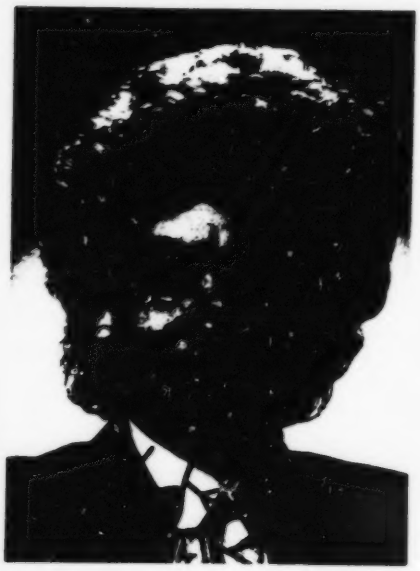
Statement of Changes in Financial Position 13

Notes to the Financial Statements 14

Cover: Regina's East Claims Centre offers convenient, neighborhood service.

SGI

Letter of Transmittal



Regina, Saskatchewan
March, 1987

To His Honour,
The Honourable F. W. Johnson,
Lieutenant-Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the annual report of the Saskatchewan Auto Fund for the year ended December 31, 1986, including the financial statements therefor, duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with the Automobile Accident Insurance Act.

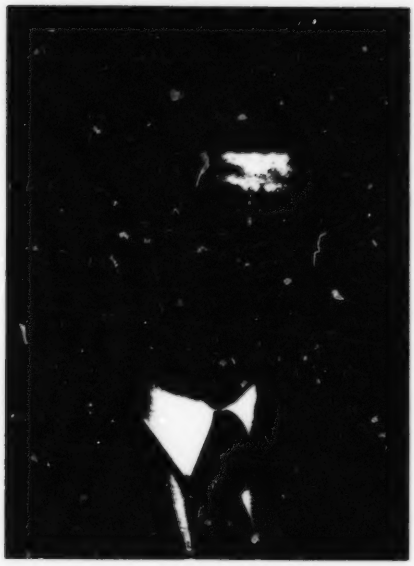
I have the honour to be, Sir,

Your obedient Servant,

Joan H. Duncan

Joan H. Duncan
Minister in Charge of
Saskatchewan Auto Fund

President's Message



In a year that saw large premium increases in other jurisdictions, Saskatchewan drivers found that stable rates went hand in hand with service improvements from the Saskatchewan Auto Fund.

Because of the Fund's mandate to break even over time, modest losses are expected some years, as claims fluctuate. The smaller rate base due to lower rates introduced in 1985 and the rising number and value of liability claims took their toll, along with the cost of improved benefits introduced in 1985. Together, they produced an operating loss of $7 million. As a result, the Rate Stabilization Reserve stood at $38.8 million, down from $45.8 million at 1985 year-end.

Financial results aside, drivers enjoyed good news in a number of areas. The Auto Fund's role in helping keep drivers and vehicles safe took on new dimensions when the safety services branch of the Highway Traffic Board transferred over in July, 1986. Throughout the year, the addition of six new claims centres around the province improved service to customers. And many of our staff refined their service skills through special in-house courses and on-the-job training.

Saskatchewan drivers can look forward to continuing commitment from the Auto Fund to give them good, basic protection along with superior service.

Alex Wilde

Alex Wilde
President

Introduction

Protecting Saskatchewan Drivers

The Saskatchewan Auto Fund, administered on behalf of the provincial government by SGI, protects Saskatchewan drivers with good, basic auto insurance. As well as operating the universal auto insurance program, the Fund handles vehicle and driver registration. Since July, 1986, our responsibilities have been broadened to include the Vehicle Administration Act, which encompasses regulatory and safety programs for drivers and vehicles.

Service and Support

Serving Saskatchewan people well is an important priority for Auto Fund staff, and we offer a convenient network of motor licence issuers, claims centres and driver examination offices around the province.

The Auto Fund makes a major economic contribution to communities throughout Saskatchewan, too. In 1986, we made claims payments of $152.1 million, and we turned over $3.9 million in fees to private licence issuers. We also supported local communities with $587,000 in grants in lieu of taxes, and we helped promote safety on the roads with $132,000 in grants to organizations like the Saskatchewan Safety Council and the Saskatchewan Trucking Assocation.

These are just a few of the employees who make up the Auto Fund service network.

The Year in Review

The former Highway Traffic Board staff who transferred to the Motor Vehicle Division includes driver examiners like Bev Popowich.

Five Year Comparison of Financial Statistics – Saskatchewan Auto Fund					
(Millions of $)	**1986**	1985	1984	1983	1982
Premiums Written	**$191.4**	189.1	192.8	179.0	170.4
Premiums Earned (Excl. Fuel Tax)	**$190.3**	192.6	187.8	171.3	155.3
Motive Fuel Tax	**$ –**	–	–	–	6.6
Claims Incurred	**$197.7**	191.1	149.2	141.8	141.6
Other Expenses	**$ 33.9**	29.0	20.7	18.5	24.0
Number of Reported Claims (Auto Fund & Extension)	**160,062**	155,076	154,697	182,200	200,292

1986 Successes

While the Saskatchewan Auto Fund did not have its most successful year financially in 1986, Saskatchewan drivers enjoyed the benefits of other important Auto Fund accomplishments. There was no overall rate increase on vehicle insurance, so most drivers continued to benefit from the lower rates introduced in 1985. The Auto Fund also concentrated on many service enhancements that had convenience to customers in mind.

The Bottom Line

The Saskatchewan Auto Fund ended 1986 with a deficit of $7 million. Small losses such as this are expected some years because of the Fund's mandate to break even over time. The loss reduced the Rate Stabilization Reserve to $38.8 million (the Rate Stabilization Reserve provides a capital base to stabilize the effects of a major claims increase, helps ensure that rate adjustments are reasonable, and funds improvements to service and coverage).

Premiums earned decreased 1% to $190.3 million, due to the removal of the $15 premium on drivers' licences, the 7% average reduction on vehicle premiums, and the farm car discount, all introduced in 1985.

Investment earnings increased 4% over 1985 to $32.8 million because of the higher level of funds that were available to be invested over the year. Profits from the sale of salvaged parts contributed $1.5 million to the $1.6 million in other income.

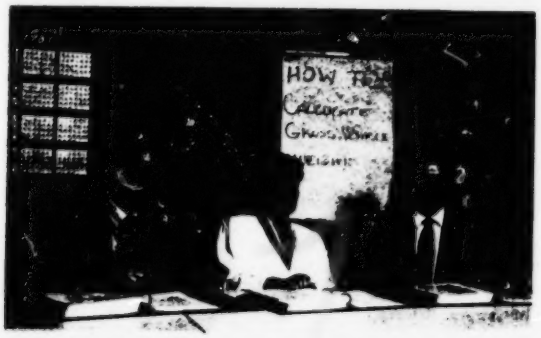
The single biggest factor affecting the Auto Fund's performance was a 4% increase in the cost of claims. The increased number and severity

Customers are enjoying six new claims centres opened in 1986: the east Regina centre shown, plus two others in Regina and new facilities in Meadow Lake, Estevan and Weyburn.

of liability claims pushed overall claims costs $6.7 million higher than 1985, to $197.7 million.

The cost of bodily injury claims rose dramatically, primarily because of legislative changes which allowed for interspousal liability, lowered the liability threshold for guest passenger recoveries, and established pre-judgement interest. Since SGI anticipates that the number and cost of bodily injury claims will continue to increase, a newly-created unit will now specialize in these types of claims to give them the individual, ongoing attention they warrant.

The addition of former Highway Traffic Board staff and responsibilities resulted in an increase in administrative expenses of 19% over 1985.

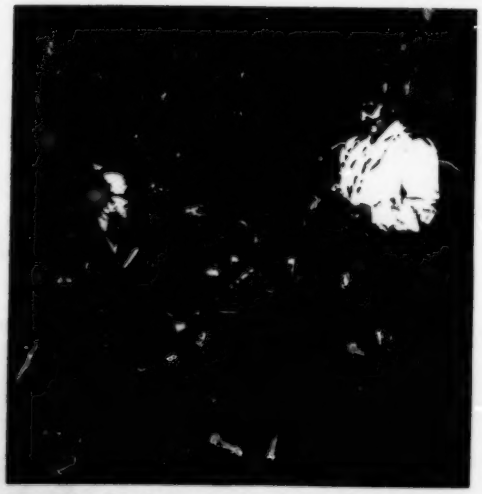


Randy Stoneham, Sandy Crighton and Randy Zerr guide new licence issuers in handling customers' transactions efficiently.

Broader Responsibilities

The Saskatchewan Auto Fund registers Saskatchewan's 647,000 drivers and 854,000 vehicles, and provides all drivers with good, basic auto insurance.

Recent legislative changes added to these responsibilities by giving the Saskatchewan Auto Fund a greater role in ensuring the safety of drivers and vehicles. In July, 1986, the Driver and Vehicle Safety Services branch of the Highway Traffic Board transferred to SGI, bringing 68 jobs along with responsibility for traffic safety programs, vehicle standards and inspections, driver testing and counselling, and administration of drivers' licences and vehicle registration.



Appraiser Jim Thomas and adjuster Cheryl Ponto aim for fast, fair claims service.

SGI encouraged the change, because it means that now a single agency is responsible for both devising and implementing driver licencing and vehicle inspection programs. These programs fall logically to SGI, because they exist to help make vehicles and drivers safer, and any reduction in accidents directly benefits the Saskatchewan Auto Fund.

Renewed Commitment to Traffic Safety

The corporation's added responsibilities have reinforced our long-time commitment to making our roads as safe as possible. Our new employees include the province's driver examiners and experts in vehicle standards and inspections. To complement their efforts, and to help make traffic safety programming widely available to the public, we

continued to make major grants in 1986 to the Saskatchewan Safety Council and the Saskatchewan Trucking Association.

"Lights on for Life," a program encouraging the use of daytime headlights to help prevent collisions, continued in 1986. The idea received national approval when Transport Canada announced that all new vehicles must come equipped with daytime running lights by 1989.

Mary Anne Davidson of Human Resources coaches staff in how to understand customers' needs and serve them better.

SGI is now responsible for driver development and control, areas which Managers Glen Samuelson and Ken Schultz specialize in.

Improving Service

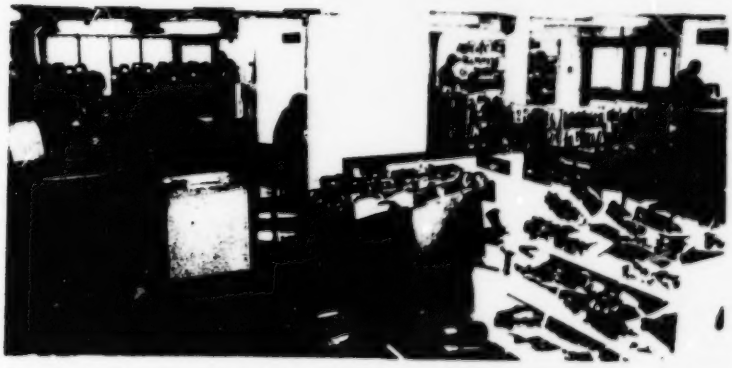
We believe that along with good basic protection, superior service is the most important feature we can offer our customers. Although satisfaction with our service is already very high, we're working hard to improve our record. That's why we updated and expanded our claims centre network to 17 in 1986, with six new facilities – in Estevan, Weyburn, and Meadow Lake, and three in Regina. These convenient new facilities were designed to help speed up and improve the overall quality of our service.

Customers saw improvements in our motor licence issuing services, too. They can now get assistance with licencing transactions at any one of over 500 locations around the province, including most SGI agents.

Such improvements are only part of top-notch customer service, though. The attitude of staff can make the difference between customers who end up disgruntled or delighted. To help our staff improve the skills they need to work effectively with every customer, we offered a special in-house training program called "Enhancing Customer Service." Their positive response is translating into a noticeable difference to customers.

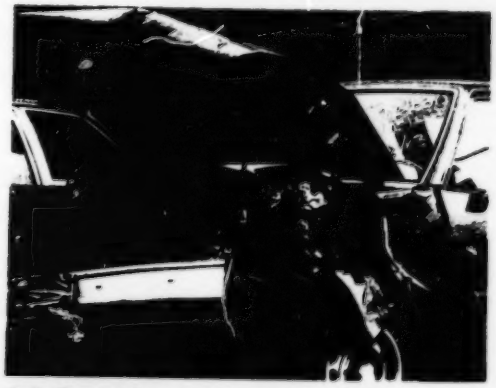
Automation Adds to Efficiency

In 1986, Motor Vehicles and Systems staff launched the Advanced Driver Delivery System (ADDS), a new automated system for processing drivers' licences. With ADDS, customers will receive standard refunds quicker, and we can more easily issue licences early for customers who plan to be away. ADDS also helps us avoid errors in calculating complex fees, and it gives us the potential to eventually share driver information with other jurisdictions more easily.



Dan Koch sells salvaged parts to help control claims costs.

In our busiest month, Brian Kline and other Motor Vehicle Division staff handle the equivalent of one vehicle transaction for every person in Regina.



Auto Fund claims costs increased in 1986.

Responsibility for Financial Statements

The financial statements of the Saskatchewan Auto Fund have been prepared by the management of Saskatchewan Government Insurance as administrator of the Fund in conformity with accounting principles generally accepted in Canada. The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance. The independent auditor has performed an audit of the Fund which has enabled him to express his opinion on the financial statements of the Saskatchewan Auto Fund. This opinion is shown on page 10.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Saskatchewan Auto Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An Audit Committee composed of members of the Board of Directors of Saskatchewan Government Insurance, administrator of the Fund, meets periodically with financial officers of the corporation and the external auditors. The independent auditor has free access to this Committee, without management present, to discuss the results of his audit work and his opinion on the adequacy of internal financial controls and the quality of financial reporting.

L. Jill Hilsden

L. Jill Hilsden
Vice-President
Finance
Saskatchewan Government Insurance

Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan:

I have examined the statement of financial position of the Saskatchewan Auto Fund as at December 31, 1986, and the statements of operations and Rate Stabilization Reserve and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1986, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

W. G. Lutz, F.C.A.
Provincial Auditor

Regina, Saskatchewan
February 12, 1987

Statement of Financial Position

December 31	1986	1985
	(Thousands of $)	
Assets		
Cash and Investments Maturing Within One Year	$ 70,950	$ 79,503
Accounts Receivable	12,018	8,916
Prepaid Expenses and Inventories	6,601	7,370
Long-Term Investments (Note 3)	189,761	168,130
Net Investment in Capital Lease (Note 4)	9,041	9,125
Property, Plant and Equipment (Note 5)	20,322	15,010
	$308,693	$ 288,054
Liabilities		
Accounts Payable and Accrued Charges	$ 12,319	$ 13,683
Unpaid Claims	164,449	137,736
Unearned Premiums	93,082	90,808
	269,850	242,227
Rate Stabilization Reserve	38,843	45,827
	$308,693	$ 288,054

(See accompanying notes)

Statement of Operations and Rate Stabilization Reserve

Year Ended December 31	1986	1985
	(Thousands of $)	
Premiums Written	$191,425	$189,136
Premiums Earned	$190,274	$192,575
Investment Earnings	32,776	31,448
Other Income (Note 8)	1,575	2,064
Total Revenue	**224,625**	226,087
Claims Incurred	197,747	191,050
Issuer Fees	3,752	2,343
Premium Taxes	7,627	7,721
Administrative Expenses	22,483	18,899
Total Claims and Expenses	**231,609**	220,013
Net Increase (Decrease) to Rate Stabilization Reserve	**(6,984)**	6,074
Rate Stabilization Reserve:		
Balance Beginning of Year	45,827	59,728
Good Driver Bonus Program Net Cost (Note 7)	–	(19,975)
Balance End of Year	**$ 38,843**	$ 45,827

(See accompanying notes)

Statement of Changes in Financial Position

Year Ended December 31	1986	1985
	(Thousands of $)	
Resources Provided		
Increase (Decrease) to Rate Stabilization Reserve	$ (6,984)	$ 6,074
Adjustments to Convert Earnings to a Cash Basis:		
Loss (Gain) on Sale of Fixed Assets	(5)	169
Increase in Prepaids, Receivables, Payables and Deferred Accounts (Net)	25,290	35,577
Depreciation and Amortization	1,007	(339)
Resources Provided by Operations	19,308	41,481
Proceeds from Disposal of Fixed Assets	47	99
Capital Lease Repayment	84	76
Total Resources Provided	**19,439**	41,656
Resources Applied		
Acquisition of Fixed Assets	6,436	3,964
Good Driver Bonus Program Net Cost	–	19,975
Net Increase in Resources Available for Investment	13,003	17,717
Increase (Decrease) in Long-Term Investments	21,556	(14,165)
Increase (Decrease) in Cash and Investments Maturing Within One Year	**(8,553)**	31,882
Cash and Investments Maturing Within One Year:		
Balance Beginning of Year	79,503	47,621
Balance End of Year	**$70,950**	**$79,503**

(See accompanying notes)

Notes to the Financial Statements

1. Significant Accounting Policies

The Fund's accounting policies are in accordance with generally accepted accounting principles. The following are considered to be significant:

Investments

Bonds, debentures and mortgages are stated at amortized cost.

Premium Acquisition Cost

Premium taxes and issuer fees are charged to expense over the terms of the insurance policies to which such costs relate.

Depreciation

Depreciation on property, plant and equipment is provided on a straight-line basis, commencing in the year in which the assets are placed in service, at rates which are expected to amortize the cost over the service life of each asset.

Unpaid Claims

The provision for unpaid claims includes the estimated cost to the Fund of reported claims, and an estimate based on the claims settlement experience of the Fund of the cost of claims yet to be reported.

Capital Lease

The net investment in the capital lease reflects the present value of future lease payments, discounted at an interest rate implicit in the lease. A portion of the lease payments is applied against the net investment with the remainder recognized as investment earnings.

Unearned Premiums

Premiums not yet taken into income represent the portion of the policy premiums relating to the unexpired term of each policy.

Foreign Currency Translation

Shares and convertible bonds are adjusted to reflect the exchange rate in effect at year-end. Non-monetary assets, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in that year.

Administrative Expenses

Saskatchewan Government Insurance (SGI) as administrator of the Saskatchewan Auto Fund incurs certain administrative expenses which cannot be readily or economically identified with the operations of SGI or the Saskatchewan Auto Fund. Section 97 of the Automobile Accident Insurance Act provides that the Board of Directors of SGI may make rules for the allocation of these expenses between SGI and the Auto Fund. These administrative expenses are shared equally as approved by the Board of Directors. This treatment is consistent with the allocation used in the prior year.

Identifiable administrative expenses are charged directly to operations.

Notes to the Financial Statements

2. Status of the Fund

The Saskatchewan Auto Fund was established effective January 1, 1984 by an amendment to the Automobile Accident Insurance Act (Chapter A-35, Revised Statutes of Saskatchewan 1978).

The accumulated earnings of the Saskatchewan Auto Fund in the Rate Stabilization Reserve are for the future benefit of Saskatchewan's motoring public and cannot be used for the payment of general dividends.

3. Long-Term Investments

The components of the Fund's long-term investments are as follows:

(Thousands of $)

	Dec. 31/86		Dec. 31/85	
	Book Value	Market Value	Book Value	Market Value
Bonds & Debentures	$135,225	$149,676	$124,185	$135,619
Mortgages	15,990	16,702	15,227	15,865
Shares & Convertible Bonds	38,546	40,127	28,718	32,235
Total Long-Term Investments	$189,761	$206,505	$168,130	$183,719

4. Net Investment in Capital Lease

The Fund, as lessor, has a 63% interest in a lease agreement with a Government department for a term of thirty years (twenty-four years remaining) on property in Prince Albert. The lease transferred substantially all of the benefits and risks incident with the ownership of the property to the lessee.

5. Property, Plant and Equipment

The components of the Fund's investment in property, plant and equipment, as well as the related accumulated depreciation, are as follows:

(Thousands of $)

	Cost Dec. 31/86	Accum. Depr. 1986	Net Book Value Dec. 31/86	Net Book Value Dec. 31/85
Land & Improvements	$ 3,045	$ –	$ 3,045	$ 2,553
Buildings	17,619	3,139	14,480	9,706
Furniture & Equipment	5,098	2,301	2,797	2,751
Total	$25,762	$5,440	$20,322	$15,010

Notes to the Financial Statements

6. Public Utilities Review Commission

Premiums charged under the provisions of the Automobile Accident Insurance Act are subject to the review and approval of the Public Utilities Review Commission.

7. Good Driver Bonus Program

Pursuant to clause 81(p) of the Automobile Accident Insurance Act, the Good Driver Bonus Program regulations were established by Order in Council 498/85 dated May 2, 1985. The regulations authorized the Auto Fund to make payments to individual members of the motoring public who qualified under the regulations.

8. Salvage Division

The Fund operates a Salvage Division in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claims settlement process. In 1986, the total salvage sales amounted to $11,835,000 (1985 – $10,860,000); gross earnings on sales $4,131,000 (1985 – $3,871,000); and net earnings of $1,525,000 (1985 – $1,417,000). The net earnings of the Salvage Division are included in other income.

9. Comparative Financial Information

For comparative purposes, certain 1985 balances have been reclassified to conform with the 1986 financial statement presentation.

10. Related-Party Transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Fund is related.

Account balances resulting from these transactions are included in the Statement of Financial Position, and are settled on normal trade terms.